

Eliminate Price Regulation for Competitive Access Services

- Services should be declared competitive and removed from Price Caps when equivalent unbundled elements are being purchased or direct competition exists (i.e., Transport, Directory Assistance, Query)
 - Unbundled transport is a direct substitute for access transport services
 - Market forces and the availability of unbundled elements will drive prices
- Remaining services should be removed from Price Caps when unbundled elements or local transport and termination are available to access customers
 - An effective market alternative to originating Switched Access exists when unbundled elements of Loop, Port and Local Switching are generally available
 - LECs should be given option after the transitional period to allow reciprocal compensation for all traffic, removing terminating Switched Access from Price Caps

All Access Services should be removed from Price Caps when alternatives exist

Triggers for Change of Regulations

Triggers

- 1+ Interstate IntraLATA
- Approved Unbundled Element Tariff and either direct competition or demonstrated purchases of unbundled network elements (e.g., loops)
- Reciprocal compensation available for Terminating Access

Change of Regulations

Remove IX basket from Price Caps

Remove Access Service from Price Caps

- Transport
- Directory Assistance
- Query - LIDB
- Query - 800 Database
- Originating Switched Access

Remove Terminating Switched Access from Price Caps

Regulations must be uniformly applicable to all competitors

Transport and Directory Assistance already have robust competitive environments

- Transport
 - Transport competitors include: MFS, TCG, ICG, Brooks, MCI Metro, Time Warner and others
 - DS1 and DS3: Seven competitors have captured 30% of Midwest market and 51% of the Chicago market
- Directory Assistance
 - Directory Assistance competitors are everywhere, including newcomers Excell, Clifton Forge, Frontier, Metro One
 - GTE has captured 30% of Midwest Directory Assistance market
 - Two large IXC's are evaluating proposals to move all Directory Assistance away from Ameritech

Regulations can be removed Service by Service

Access Reform - Access Pricing Flexibility

- Expand geographic pricing to all rate elements
- Location specific pricing (individual buildings)
- Flexible term plans and options to serve individual customer needs
- Promotional pricing (90 day service offerings and pricing plans)
- ICB/Contract pricing

Need flexibility to respond to competition

Loop and Line Port Recovery (LPR) Mechanism

A)	25% of Loop and Port Cost	\$400M
B)	Amount recovered through EUCL	\$304M
C)	Under-recovery of Interstate Loop/Port Cost (A - B)	\$ 96M
D)	Number of Lines	4M
E)	Average Dollars Per Line Per Month (EUCL Less than 25%) (C / D / 12 = E)	\$ 2.00
F)	Average Number of Lines (EUCL Less Than 25%)	3.8M
G)	This Month's Gross LPR (E x F = G)	\$7.6M
H)	Amount Recovered by Universal Service Fund for Interstate Portion	?
I)	This Month's LPR (G - H = I)	\$7.6M
J)	IXC - ABC Interstate Toll Revenues in the State	\$400M
K)	Total IXC Interstate Toll Revenues in the State	\$2000M
L)	% of IXC - ABC Interstate Toll Revenues in the State	20%
M)	This Month's IXC - ABC LPR (L x I = M)	\$1.52M

Notes:

A-E	Calculated once every year
F-I, M	Calculated each month
J-L	Calculated each quarter

Ameritech Interstate Access Reform Proposal

Switched Revenue Example (\$M)

Proposed Access Reform Structure	1997	1998	1999	2000	2001	2002
EUCL	850	850	850	850	850	850
Loop/Port Recovery Charge	295	281	267	253	239	225
Local Switching	275	257	239	221	203	185
Trunk Port	25	25	25	25	25	25
TIC	310	248	186	124	62	0
Transport	120	112	104	96	88	80
Total Switched Access	1,875	1,773	1,671	1,569	1,467	1,365
Maximum Revenue allowed under Price Caps	1,875	1,846	1,818	1,789	1,761	1,732
Notes:						
* Assumes constant 1996 demand at projected yearly prices						
* EUCL prices assumed constant						
* Loop/Port Recovery Charge is transition over five years from today's revenues to embedded cost model						
* Local Switching and Transport prices are based on market rates						
* TIC priced is eliminated over five years beginning 1/1/98						
* Price Cap reduced annually by 2% of Local Switching, Trunk Port, TIC and Transport plus reduction in LPR transition						